

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6909]
March 2, 1972

ADVANCES AND DISCOUNTS BY FEDERAL RESERVE BANKS

To the Member Banks of the
Second Federal Reserve District:

The Board of Governors of the Federal Reserve System has issued an interpretation, effective February 25, 1972, regarding the eligibility of consumer loans and finance company paper for discount with and as collateral for advances by Federal Reserve Banks. The interpretation replaces a 1965 published interpretation of the Board of Governors on the same subject (12 CFR 201.104).

The new interpretation—

- (a) Establishes an assumption that 50 percent of "direct consumer instalment loans" by a finance company as to which there is no definite information as to the purpose of such loans can be regarded as "notes receivable which appear eligible for rediscount" in determining whether the amount of the finance company's loans for eligible purposes exceeds its current liabilities;
- (b) Defines "current liabilities" as meaning "notes due within one year," rather than "liabilities maturing within one year," in order to exclude liabilities for accrued payroll and tax expenses;
- (c) Makes it clear that notes given for the purchase of mobile homes, when acquired by a finance company from dealers, may be regarded as notes that "appear eligible for rediscount"; and
- (d) Makes it clear that a note of an agricultural finance company engaged in making loans for agricultural purposes is eligible for discount and as collateral for advances if it has a maturity of not more than nine months.

Printed below is the text of the new interpretation. It will be published shortly in the *Federal Register* and in the March 1972 issue of the *Federal Reserve Bulletin*, but is being sent to you now so that you might have prompt notice of its content.

ALFRED HAYES,
President.

(12 CFR 201)

Eligibility of Consumer Loans and Finance Company Paper

Effective February 25, 1972, § 201.104 is revised to read as follows:

§ 201.104 *Eligibility of consumer loans and finance company paper.*

(a) The Board of Governors has clarified and modified its position with respect to the eligibility of consumer loans and finance company paper for discount with and as collateral for advances by the Reserve Banks.

(b) Section 13, Paragraph 2, of the Federal Reserve Act authorizes a Federal Reserve Bank, under certain conditions, to discount for member banks "*** notes, drafts, and bills of exchange arising out of actual com-

mercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Board of Governors of the Federal Reserve System to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act."

(c) It continues to be the opinion of the Board that borrowing for the purpose of purchasing goods is borrowing for a commercial purpose, whether the borrower intends to use the goods himself or to resell them. Hence, loans made to enable consumers to purchase automobiles or other goods should be included under

commercial, agricultural, and industrial paper within the meaning of the Federal Reserve Act, and as such are eligible for discounting with the Reserve Banks and as security for advances from the Reserve Banks under section 13, paragraph 8, of the Federal Reserve Act as long as they conform to requirements with respect to maturity and other matters. This applies equally to loans made directly by banks to consumers and to paper accepted by banks from dealers or finance companies. It also applies to notes of finance companies themselves as long as the proceeds of such notes are used to finance the purchase of consumer goods or for other purposes which are eligible within the meaning of the Federal Reserve Act.

(d) If there is any question as to whether the proceeds of a note of a finance company have been or are to be used for a commercial, agricultural, or industrial purpose, a financial statement of the finance company reflecting an excess of notes receivable which appear eligible for rediscount (without regard to maturity) over total current liabilities (i.e., notes due within one year) may be taken as an indication of eligibility. Where information is lacking as to whether direct con-

sumer loans by a finance company are for eligible purposes, it may be assumed that 50 per cent of such loans are "notes receivable which appear eligible for rediscount". In addition, that language should be regarded as including notes given for the purchase of mobile homes that are acquired by a finance company from a dealer-seller of such homes.

(e) The principles stated above apply not only to notes of a finance company engaged in making consumer loans but also to notes of a finance company engaged in making loans for other eligible purposes, including business and agricultural loans. Under section 13a of the Federal Reserve Act, paper representing loans to finance the production, marketing, and carrying of agricultural products or the breeding, raising, fattening, or marketing of livestock is eligible for discount if the paper has a maturity of not exceeding nine months. Consequently, a note of a finance company the proceeds of which are used by it to make loans for such purposes is eligible for discount or as security for a Federal Reserve advance, and such a note, unlike the note of a finance company making consumer loans, may have a maturity of up to nine months.

Printed below is the text of the new interpretation. It will be published shortly in the Federal Register and in the March 1952 issue of the Federal Reserve Bulletin, but is being sent to you now so that you might have prompt notice of its content.

ALFRED HAYES
President

(12 FEB 201)

Eligibility of Consumer Loans and Finance Company Paper

Effective February 25, 1952, § 201.104 is revised to read as follows:

§ 201.104 Eligibility of consumer loans and finance company paper.

(a) The Board of Governors has clarified and modified its position with respect to the eligibility of consumer loans and finance company paper for discount with and as collateral for advances by the Reserve Banks.

(b) Section 13, Paragraph 2 of the Federal Reserve Act authorizes a Federal Reserve Bank, under certain conditions to discount for member banks "notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Board of Governors of the Federal Reserve System to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act."

(c) It continues to be the opinion of the Board that borrowing for the purpose of purchasing goods is borrowing for a commercial purpose, whether the borrower intends to use the goods himself or to resell them. Hence loans made to enable consumers to purchase automobiles or other goods should be included under

commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Board of Governors of the Federal Reserve System to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act."

(c) It states it is clear that notes given for the purchase of mobile homes when acquired by a finance company from dealers may be regarded as notes that "appear eligible for rediscount"; and

(d) States it is clear that a note of an agricultural finance company engaged in making loans for agricultural purposes is eligible for discount and as collateral for advances if it has a maturity of not more than nine months.

(e) Defines "current liabilities" as meaning "notes due within one year", rather than "liabilities maturing within one year", in order to exclude liabilities for accrued payroll and tax expenses;

(f) Defines "notes receivable which appear eligible for rediscount" in determining whether the amount of the finance company's loans for eligible purposes exceeds its current liabilities;

(g) Establishes an assumption that 50 percent of "direct consumer installment loans" by a finance company are to which there is no definite information as to the purpose of such loans can be regarded as "notes receivable which appear eligible for rediscount".